

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

13 July 1981

MEMORANDUM FOR: Director of Central Intelligence

FROM :  25X1  
Acting National Intelligence Officer for USSR-EE

SUBJECT : NSPG Meeting, 14 July: Economic Aid to Poland  25X1

1. Tomorrow's NSPG discussion on Poland is billed as "not decision-oriented," i.e., for informational purposes only -- to take the aid to Poland issue away from the economists and discuss it in political terms, recognizing that the US will have to take some decisions after the Polish Congress. Most of the meeting is to be devoted to brainstorming on what the US might do to prevent Poland from going down the tube. State has prepared a briefing paper that consists of a 4-page summary memo (Tab A) and a more detailed assessment of Poland's longer term prospects (Tab B).  25X1

2. The summary paper is a good statement of the stakes, issues and dilemmas that confront the US in determining whether and how to fill Poland's financial gap. State's gap analysis (see the two tables appended to Tab B) corresponds closely to our own: assuming a continued de facto moratorium on principal repayments, Poland will require some \$2 plus billion of new credits through the end of this year, primarily to meet its interest obligations. A Treasury paper (at Tab C) reviews all of the possible sources of US financial assistance, but is negatively inclined on all of them. State's position is far more forthcoming and State is, in fact, preparing a legislative package that would include long term CCC credits, resort to Treasury's Exchange Stabilization Fund, and a zloty financing scheme. That package, however, is not ready to be tabled, but State alludes to it in its paper (Tab A, p. 3 bottom). The NSC staff has been, on the whole, positive on aid to Poland:  25X1

There is also lively pressure from the Hill for the US to respond positively to Poland's request for 400,000 tons of corn valued at about \$80 million, to increase Polish poultry output quickly this summer.  25X1

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3. OER participated in a succession of IG deliberations and contributed three papers that found their way into the State assessment at Tab B.

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Attachments: three  
As Stated

cc: DDCI  
D/NFAC  
Chairman, NIC

NATIONAL SECURITY PLANNING GROUP

14 JULY 1981

ECONOMIC AID TO POLAND

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TAB A NSC Briefing Memorandum

TAB B Poland: Can It Survive Until 1984?

TAB C Memorandum for the Cabinet Council on Economic Affairs  
from Roger Porter, dated 10 July 1981

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## NSC BRIEFING MEMORANDUM

ECONOMIC AID TO POLANDThe Stakes

The fate of Poland's challenge to Soviet hegemony and communist orthodoxy -- a still embryonic development of potentially great strategic value to the West -- may depend largely on economic forces:

-- Before the Polish people have time to savor the new era of greater freedom, the new ruling triumvirate of reformist communists, independent unions, and the Catholic church must decide to impose economic measures aimed at arresting the country's economic deterioration and qualifying Poland to receive additional Western debt relief and new credits; this bitter medicine will be politically hazardous for the new leadership either to prescribe or to avoid. (S)

-- Within weeks of these critical Polish economic policy decisions, Western governments and banks must make a high-stakes decision of their own -- either to risk, by inaction, the economic undermining of Poland's challenge to Moscow or to undertake a prolonged, costly, and inherently speculative multilateral aid program to shore up Poland's capacity to preserve its independence. The strategic and political rewards for success could be the neutralization of the second largest military force in the Warsaw Pact and the loosening of Soviet control of all of Eastern Europe. Success cannot, however, be assured. (S)

-- The Soviet Union, without risking military intervention, may decide to impose severe economic sanctions, so as to nullify Polish recovery efforts supported by Western economic aid, thereby either inducing popular rejection of the new Polish political leadership or heightening anti-Soviet Polish nationalism, and in either case greatly increasing the cost of any rescue effort on the part of the Western powers. Trade sanctions would be awkward and costly to Moscow. (S)

-- Alternative projections also are strewn with perils. If the Soviets refrain from both military intervention and economic reprisals, and the Polish leadership refrains from profound economic measures, the West is unlikely to contribute substantially to the relief of Poland's critical

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shortages; very quickly the resulting economic distress could explode in ways that create opportunities for successful Soviet suppression of Poland's flirtation with deviationism. On the other hand, if the new Polish leadership adopts austerity without fundamental reforms and persuades the West to respond with large-scale economic aid, Poland will escape immediate food riots but will remain indigent and vulnerable to Soviet economic pressure at times of Moscow's choosing. (S)

#### Economic Factors in Brief

Poland's chronic economic illness, made critical by a year of strikes and governmental change, is evidenced by a projected 10-15% decline in GSP and shortfall of \$11 billion in foreign exchange needed to service its \$26 billion foreign debt and close its growing external trade gap this year. A generous rescheduling of payments due on official Western credits and the prospective rescheduling of debts to Western commercial banks will reduce the shortfall by nearly \$6 billion. New Western offers of credit -- including \$585 million scheduled to be provided by US banks under US Department of Agriculture guarantees to finance Polish imports of US grain -- total about \$2.5 billion, but about 60% of the European credits are effectively frozen by financial terms which Poland appears to be unable to meet. If the Soviet Union and other Eastern European countries provide no more credits in the second half of 1981, Poland will need to borrow from the West an additional \$2-\$2.5 billion to finance food and other essential imports in the next six months. It will need credits with maturities averaging more than three years. (S)

The need for official Western credits -- about \$5 billion this year -- should decline somewhat next year if generous rescheduling of official and private debts continues and Poland is able to restore exports of coal and other goods. If all went well, Poland would be able to attract and service a rising proportion of commercial credits and reduce its need for official aid in 1983 and 1984. (S)

Poland's need for Western aid would be increased significantly if preferential Soviet and other CEMA export pricing and payment terms on intra-bloc trading were withheld from Poland. Such economic sanctions could raise Poland's requests for Western aid by as much as \$2 billion per year. (S)

If Poland joins the IMF this fall, it could become eligible as early as mid-1982 for credit drawings up to 4.5 times its quota, or as much as \$4.5 billion over three years. (S)

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Further details are contained in the attached State Department Staff Paper, "Poland: Can It Survive Until 1984?" (TAB (U))

Western Aid Means

Interagency staff discussions have found no basis for confident prediction of the will and capacity of the Polish political and union leadership to adopt and maintain an effective economic reform program. The outlook may be somewhat clearer after the Party Congress, but Solidarity's August convention may be more revealing. Moscow's response also should become clearer during and immediately after these pivotal Polish conventions. (S)

Western European governments have been taking a wait-and-see attitude toward Poland's appeals for economic aid. The new French government expressed readiness to help in raising \$500 million in short-term credit from central banks (which the Federal Reserve has no legal authority to provide), but no European initiative commensurate with the economic need and political stakes has emerged. US representatives have been instructed to reject suggestions of a US lead in raising new credits, inasmuch as we already have done more than our share this year in purely economic terms as measured against historic trade and financial ties with Poland. We currently are considering how to respond to Poland's request for \$80 million in longer than three-year credits to finance imports of US corn. (S)

If the Western allies decide to make either a gesture of support or a major and prolonged effort to support Polish independence, they will need to collaborate in order to achieve maximum political effect and assure equitable burden-sharing. IMF participation would greatly facilitate negotiation of economic policy conditions of aid and would reduce the fiscal burden on Western governments. (S)

Informal staff discussions have agreed that neither the regular instruments of bilateral economic aid (AID development assistance, PL480 credits and emergency grants, or security-related Economic Support Fund credits or grants) nor existing official export credit programs (ExIm Bank and CCC credit guaranties) are ideally suited to US participation in a possible multilateral aid consortium for Poland. A specially designed and legislated Polish aid instrument providing for financing of US grain exports to Poland, on repayment terms longer than existing CCC export credits and consistent with a possible IMF-Polish stabilization-recovery plan, is the preferred US instrument. The US loans might be conditioned on and

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associated with Polish adoption of a comprehensive agricultural rationalization and development program. In acting on a large-scale aid package for Poland, the Congress might legislate its own policy stipulations. (S)

If the Western allies were to launch a major program of economic support for Polish independence, their primary aim would be to serve allied military security objectives. While budgeted as foreign economic assistance, the US share might appropriately be funded by an offset against NATO theater or other defense programs. (S)

#### Decision Process

The Ottawa Summit, occurring immediately after the Polish Party Congress, offers the opportunity for private consultation on Poland at the highest political and economic levels among the major industrial nations. At that time, however, key facts required to make a firm assessment or decision will not be available. (S)

This matter should be kept on the NSC agenda for further consideration after the Ottawa Summit. Only after the critical political decisions have been made should the issue be entrusted to international economic decision processes. (S)

The 15 Western creditor governments participating in Polish debt rescheduling have formed with Poland a standing group, or "commission" at variable senior economic official levels which can meet to concert views in response to an expected Polish request for aid immediately after the Party Congress. If Poland joins the IMF this fall, this group could meet jointly with the IMF management and Polish government negotiators to review and respond to the initial Polish-IMF stabilization/reform program. (S)

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